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Mr. John S. Thornton, Jr.
Chief, Accounting & Rates Section
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Arizona Corporation Commission

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Re: Montezuma Estates Property Owners Association - Application for a Rate Increase -
Letter of Deficiency - Docket No. W-02064A-01-0787

RESPONSE TO LETTER OF DEFICIENCY

Dear Mr. Thornton:

Your Letter of Deficiency dated November 8, 2001 contained the following deficiencies:

1. The Arizona Department of Environmental Quality (ADEQ) informed Engineering Staff that the Montezuma system has major deficiencies.

Response - I discussed this matter with Mr. Jim Puckett of ADEQ on November 9, 2001 and was informed that this deficiency pertains to the results of a drinking water inorganic chemical test performed on Montezuma's water by Montgomery Watson Laboratories on August 21, 2001. The results revealed that the arsenic level was .63 while the maximum contaminant level (MCL) is .50. I pointed out to Mr. Puckett that a confirmation test of the arsenic level was performed by Montgomery Watson Laboratories on September 24, 2001 which resulted in an arsenic level of .37. The ADEQ Inorganic Monitoring Procedures state, in part, that if the average of the confirmation sample and the initial sample is greater than the MCL, corrective action is required and quarterly monitoring continues. The results of the initial test (.63) when added to the results of the confirmation test (.37) and averaged results in an amount (.50) that is not greater than the MCL of .50; therefore, Mr. Puckett stated that a deficiency does not exist.

2. The Arizona Department of Environmental Quality informed Engineering Staff that Montezuma is under a United States Environmental Protection Agency administrative order.

Response - I discussed this matter with Mr. Jim Puckett of ADEQ on November 9, 2001 and was informed by Mr. Puckett that this deficiency stems from an Environmental Protection Agency (EPA) administrative order concerning Montezuma's failure to file Consumer Confidence Reports. Mr. Puckett suggested that I discuss the matter with Mr. Everett Pringle of the San Francisco Office of the EPA. I called Mr. Pringle, who is an Enforcement Officer, on November 9, 2001 and he stated that he is quite familiar with the subject. Mr. Pringle said that the EPA

previously targeted 189 small and medium size water companies in California and Arizona that were not in compliance with EPA requirements concerning Consumer Confidence Reports (a.k.a. Annual Drinking Water Quality Reports). He informed me that the project was recently concluded and that 5 companies are still not in compliance. Montezuma is not one of those five companies. Also, at the time the 189 letters were sent, 11 letters were returned as being non-deliverable. Montezuma was not one of those eleven companies. Therefore, Mr. Pringle concluded that Montezuma is in compliance with the EPA Consumer Confidence Report requirement. He also concluded that the ADEQ data base containing this type of information is probably in error.

I subsequently called Mr. Puckett of ADEQ and informed him of my conversation with Mr. Pringle. Mr. Puckett said that he would call Mr. Pringle to confirm the matters Mr. Pringle and I discussed. Mr. Puckett stated that, if the results of his conversation with Mr. Pringle are consistent with the matters that Mr. Pringle and I discussed, Mr. Puckett will write a letter to me, with a copy to the Arizona Corporation Commission, stating that this deficiency does not exist and has been removed.

3. Please explain what is causing your 30 percent water loss and the steps you have taken to resolve the problem.


Response - It is my understanding that the Montezuma water system was constructed in 1978 and was owned by Mr. Ned Warren, the late Arizona land developer who was convicted of fraud. The system was purchased by Montezuma in 1980 for \$500 during a bankruptcy proceeding. On May 20, 1987 the Commission imposed a moratorium on Montezuma limiting it to no more than 13 connections in Unit I and no connections in Unit II. The Commission lifted the moratorium on Unit I on June 7, 1995 and removed the moratorium on Unit II on November 27, 1996. On November 27, 1996, Montezuma had 14 water customers. On November 9, 2001, Montezuma has 80 water customers.

While the reason for the water loss during the year ended December 31, 2000 of approximately 30 per cent could be caused by several factors, I am aware of only one factor that contributed to the loss and that factor is leaking. The main lines and valves are at least 23 years old, and, given the fact that Mr. Warren installed the system, quality is suspect.

The steps that we take to resolve the problem are quite straightforward. As leaks are detected and funds are available, we repair the leaks.

If you have any questions concerning the matters contained in this letter, please do not hesitate to contact me at your earliest convenience.

Sincerely,


David O. Cavner